

23 million middle-class families would be protected from the AMT this year, including 93,181 households in the 7th District. — On Friday, November 9, Congressman Joe Sestak (D-PA) voted for the passage of the Temporary Tax Relief Act of 2007 (H.R. 3996), a legislation that extends tax relief to middle-class families facing the alternative minimum tax (AMT), originally enacted in 1969 to deny wealthy Americans from tax loopholes. The bill also extends other over 30 popular tax credits and deductions, such as an expanded child tax credit, extensions of deductions for property taxes, and student tuition payments, among many tax provisions. The bill provides special incentives for families, businesses, students, teachers, active duty troops and veterans.

The middle-class tax relief package would:

- o Protect 23 million families from the AMT this year
- o Allow 30 million homeowners who do not itemize their tax returns to deduct property taxes
- o Help 12 million children with the expansion of the child tax credit
- o Allow 11 million families to benefit from the state and local sales tax deduction
- o Make it easier for 4.5 million families to pay for college
- o Allow 3.5 million teachers to save money with the deduction for classroom expenses
- o Make thousands of American servicemen and servicewomen earning combat pay eligible for the earned income tax credit.

"With the cost of living rising for American families, it is critical that we provide for their economic security by putting more money back into the pockets of hard working families. I strongly support this legislation because it brings tax relief to middle-class families in a fair and fiscally responsible way that is fully paid for under a 'pay-as-you-go' government," said Congressman Sestak.

Alternative Minimum Tax (AMT) Relief

The legislation would extend tax relief to 23 million middle-class families by protecting these taxpayers from paying the alternative minimum tax (AMT) for one year. Almost half of those 23 million are married taxpayers with children. Estimates indicate that those impacted by this provision include over 93,000 families in the 7th Congressional District and over one million in the State of Pennsylvania.

Property Tax Relief

Another provision in the tax bill would help 30 million receive \$1.2 billion in tax relief by

providing these taxpayers with a standard deduction for real estate taxes. In 2005, there were 72.3 million owner-occupied households yet only 40.5 million taxpayers claimed and itemized deduction. More specifically, there is a new property tax deduction for American homeowners who currently do not itemize on their Federal tax returns to take an additional standard deduction for state and local property taxes they pay.

Child Tax Credit

The bill would increase the eligibility for the refundable child tax credit in 2008 to over 12 million children. Currently, the child tax credit is refundable to the extent of 15 percent of the taxpayer's earned income in excess of approximately \$11,000 as a result of inflation adjustments to the original floor of \$10,000. The bill would reduce the threshold for the tax credit to \$8,500.

Extension of Provision to Permit Individual Retirement Plan Contributions for Charitable Purposes

The bill would extend for one year the provision that permits tax-free charitable contributions from an Individual Retirement Account (IRA) of up to \$100,000 per taxpayer, per taxable year.

Armed Services Combat Pay for Purposes of the Earned Income Credit

The bill extends for one year the special rules that allow members of the armed services to include their combat pay in their earned income in order to qualify for the earned income tax credit.

Special Rules for Qualified Mortgage Bonds for Veterans

The bill extends for one year the special rules that allow veterans to qualify for State-operated, tax-exempt mortgage revenue bond programs to provide lower-income individuals with access to mortgages with lower interest costs without regard to first-time home buyer requirement.

Extension of Special Rules for Active Duty Retirement Plans

The bill extends for one year special rules that permit active duty reservists to make penalty free withdrawals from retirement plans.

Tuition and Related Expenses Deduction

The bill extends the above-the-line tax deduction for qualified education expenses for one year benefiting 4.5 million students and families. For tax year 2007, the maximum deduction was \$4,000 for taxpayers with annual gross income (AGI) of \$65,000 or less (\$130,000 for joint returns) or \$2,000 for taxpayers with AGI of \$80,000 or less (\$160,000 for joint returns).

School Teacher Expenses

The bill extends for one year the \$250 above-the-line tax deduction for teachers and other school professionals for expenses paid or incurred for books and supplies. This provision is expected to help 3.5 million teachers save money with the deduction for classroom expenses.

Penalties to Health Plans Limiting Mental Health Benefits

The legislation extends for one year a \$100 per day excise tax on group health plans that

impose limits on mental health benefits that are not imposed on medical and surgical benefits.

R&D Tax Credit Extension

The bill will extend the R&D tax credit for one year to promote research and innovation.

Extension of Provision to Encourage Conservation

The bill would extend for one year the increased contribution limits and carry forward period for amounts in excess of these limits for contributions of appreciated real property (including partial interests in real property) for conservation purposes.

Expensing of "Brownfields" Environmental Remediation

The bill would extend for one year the provision that allows for the expensing of costs associated with cleaning up hazardous ("brownfield") sites.

H.R. 3996 will also repeal the IRS authority to enter in private debt collection contracts, a cost ineffective policy that allowed for the harassment and invasion the privacy of taxpayers, and delays the application of the three percent withholding requirement on certain governmental payments for goods and services, which were both legislative priorities championed by Congressman Sestak.

Repeal of IRS authority to enter into private debt collection contracts

The provision would repeal the IRS's authority to enter into, renew, or extend contracts with private companies to collect Federal income taxes. The collection of Federal income taxes is an inherently governmental function that should be restricted to IRS employees. The use of private contractors violates the special and confidential relationship between taxpayers and the Federal government, and could jeopardize the privacy of taxpayers, possibly undermining long-term taxpayer compliance. In addition, private debt collection is an extremely inefficient way to collect Federal income taxes. Since the authority to enter into private debt collection contracts was first granted in 2004, the Federal government has spent \$71 million to collect a net of \$20 million in tax receipts.

Delay Withholding Requirement on Governmental Payments

The provision would delay for one year the application of the three percent withholding requirement on government payments for goods and services in order to provide time for the Treasury Department to study the impact of a three percent withholding provision on certain payments to persons providing property or services made by Federal, State, and local governments. The withholding is required regardless of whether the government entity making the payment is the recipient of the property or services (those with less than \$100 million in annual expenditures for property or services are exempt).

Offsets

The tax relief and credit extension provisions in H.R. 3996 are largely paid for by changing the

tax treatment of incentive compensation, also known as "carried interest," for investment fund managers. These individuals have benefited from an unfair advantage that taxed the income of these investment managers at a lower rate of 15 percent than many their corporate peers and assistants, who pay up to a 35 percent tax rate on their compensation. The 15 percent capital gains tax rate is meant for those who invest their capital and bear the risk of the investment. The provision will end the preferential treatment for fund managers while other corporate professionals doing similar jobs are taxed at the normal income tax rate.

Additionally, the bill delays the phase-in of a new liberalized rule, enacted by Congress in 2004, for allocating interest expense between United States sources and foreign sources for the purposes of determining a tax payer's foreign tax credit. The bill, which would delay phase-in of the rule for nine years, will generate an estimated \$24.90 billion over ten years.

Born and raised in Delaware County, former 3-star Admiral Joe Sestak served in the Navy for 31 years and now serves as the Representative from the 7th District of Pennsylvania. He led a series of operational commands at sea, including Commander of an aircraft carrier battle group of 30 U.S. and allied ships with over 15,000 sailors and 100 aircraft that conducted operations in Afghanistan and Iraq. After 9/11, Joe was the first Director of "Deep Blue," the Navy's anti-terrorism unit that established strategic and operations policies for the "Global War on Terrorism." He served as President Clinton's Director for Defense Policy at the National Security Council in the White House, and holds a Ph.D. in Political Economy and Government from Harvard University. According to the office of the House Historian, Joe is the highest-ranking former military officer ever elected to the U.S. House of Representatives.